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WAR DEPARTMENT PAMPHLET NO. 31-154

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CIVIL AFFAIRS GUIDE

PRICE AND RENT CONTROL IN GERMANY

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WAR DEPARTMENT • 22 JULY 1944

WAR DEPARTMENT,
WASHINGTON 25, D. C., 22 July 1944.

War Department Pamphlet No. 31–154, Civil Affairs Guide, Price and Rent Control in Germany, has been prepared by the Research and Analysis Branch, Office of the Strategic Services, and is published for the information and guidance of all concerned.

[A. G. 461 (10 Jul 44).]

BY ORDER OF THE SECRETARY OF WAR:

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NOTE

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This Guide has been approved by the Committee on Civil Affairs Studies.

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SECTION I. PRICE CONTROL

1. Introduction

a. It will be necessary to establish administrative controls over prices and rents during the period of military occupation in Germany as part of a program to combat inflation. It is recognized that such controls, by themselves, are not sufficient to maintain economic stability. To have any chance of success, the fight against inflation requires a many-sided program that should be put into effect and administered as a whole. In addition to price and rent controls, such a program should include measures to increase the supply of consumer goods available on the market; wage controls; fiscal and monetary measures designed to restrict the amount of money that will be spent by the people; rationing, foreign trade, and exchange controls; and control over the production, collection, and distribution of some goods, particularly farm commodities.

b. To adopt some of these measures without the others may not only mean failure in the fight against inflation but may also impose disproportionate hardship on certain groups in the population. For example, an attempt to freeze wages in a situation in which price control has broken down will work hardship on wage and salary earners.

c. This Guide deals only with price and rent controls, on the assumption that the other measures necessary to fight inflation will also be put into effect. Other Guides deal with additional phases of an anti-inflation program.

2. Administration of Controls

Price control was a cornerstone of Nazi economic policy even before the outbreak of the war. Prior to 1936, however, the administration of price control was not centralized. The act of 29 October 1936 to Carry Out the Four-Year plan laid the basis for the wartime control of prices. This act created the Office of the Reich Commissioner for Price Control, provided for the appointment of the Price Commissioner by the *Führer*, and placed the Price Commissioner under the supervision of the Commissioner for the Four-Year Plan. It gave the Price Commissioner authority over the prices of all commodities and services, and over all other remunerations except wages and salaries. The Price Commissioner, however, was authorized with the approval of the Commissioner for the Four-Year Plan to delegate his authority in whole or in part to other agencies.

a. National level.—(1) In the main, the Price Commissioner acts through other agencies to whom he has delegated price powers. Thus, authority over the prices of agricultural commodities, both raw and

processed, has been delegated to the Ministry of Food and Agriculture, the Food Estate, and the Central Marketing Organizations (*Hauptvereinigungen*). Decrees fixing the prices of food and farm products are issued jointly by the Price Commissioner and the Minister of Food and Agriculture. Often such decrees are issued by the Marketing Organizations with the approval of the Price Commissioner and the Minister of Food and Agriculture. Similarly, authority over the prices of products under the jurisdiction of the Reich Forest Master has been delegated to that official, and decrees involving such prices are put forth jointly by the Price Commissioner and the Reich Forest Master. In some cases the Minister of the Interior also joins in issuing these decrees. Occasionally price powers are delegated to the *Reichsstelle* with regard to the commodities under its jurisdiction. Recently the Price Commissioner delegated price powers to the Reich Associations (*Reichsvereinigungen*) for Chemical Fibers, Hemp, Textile Finishing, and Iron, and to the National Tube Glass Cartel. In all such cases the Price Commissioner exercises supervision over the price-fixing activities of these authorities.

(2) So far as the division of function between the Price Commissioner and all the other price offices is concerned, the Price Commissioner retains responsibility for general policy and passes directly only upon (*a*) the price of coal, (*b*) prices established by government-controlled enterprises, such as the Reich Railroad, (*c*) cartel prices, (*d*) prices established by the compulsory organizations of industry and agriculture, and (*e*) other prices of "fundamental importance."

b. Regional level.—There are 26 Offices of Price Control (*Preisbildungstellen*) which exercise price-control authority at the state (and for Prussia, the provincial) level. Authority is actually delegated to the heads of these offices who are, in Prussia, the Presidents of the provinces and, elsewhere, the supreme state authorities. With minor exceptions, these offices have authority over all prices not under the direct control of the Price Commissioner. These offices are staffed with civil servants who, in practice, take their orders from the Price Commissioner.

c. District level.—Within the various states and in Prussia, within the provinces, there are 56 Offices of Price Enforcement (*Preisuberwachungsstellen*) which are primarily responsible for enforcement. These offices do not have authority to grant price increases. In Prussia, Bavaria, and Saxony price supervision is delegated to the President of the government districts (*Regiorungsbezirke*), in Hamburg to the Economic Office, and in the other states to the supreme state authorities.

d. Local level.—The Offices of Price Supervision in turn have delegated their enforcement powers to subordinate local agencies, in Prussia to the county chiefs (*Landräte*), mayors and police presidents (in Hamburg to the Office for Trade, Navigation, and Commerce, *Behörde für Handel, Schiffahrt und Gewerbe*); and in the other states to corresponding agencies.

e. Recommendations.—(1) Immediately upon occupation, Military Government authorities should, with the minor modifications suggested below, continue the existing national, regional, district, and local organizations of price control, together with the existing division

of functions among them. On the whole, they have worked efficiently and well. However, should the Four-Year Plan Office be abolished, the Price Commissioner should be made responsible to the occupation authorities.

(2) The delegations of authority made by the Price Commissioner to other agencies should be reviewed. It may be advisable to revoke the delegation to the central German agency for food and agriculture of authority over the prices of raw and processed agricultural commodities, in which case the Price Commissioner should assume direct responsibility for the control of these prices. The Price Commissioner may represent the general consumer interest more effectively than any central German agency for food and agriculture.

(3) All delegations of price powers to private groups or organizations should be revoked. The Military Government authorities may wish to seek the advice and counsel of private groups and organizations, but delegation of governmental power to them is not advisable during the period of military occupation. Thus the Central Marketing organizations (*Hauptvereinigungen*), the Reich Associations (*Reichsvereinigungen*) for Chemical Fibers, Hemp, Textile Finishing Organizations (*Hauptvereinigungen*), the Reich Associations be deprived of the power over prices they now have, and the German governmental authorities should assume direct responsibility in these fields.

(4) Although the men at the head of the price offices are undoubtedly active Nazis who will have to be replaced, the lower ranks of officials, who are drawn from the Civil Service, can, after they are purged of individual Nazis, form the basis of the new price administration. During the entire period of military occupation, the German administration of price control should on all levels be supervised by the Military Government. During the emergency period it may be necessary to put Military Government personnel directly in charge of the office of the Reich Commissioner for Price Control, as well as part or all of the regional and local price offices. As quickly as possible, however, Germans should be placed in positions of responsibility, with the Military Government authorities retaining supervision.

(5) A decision to divide Germany into zones of military occupation would present special problems of price control. National price administration is essential to the success of price control in a country with a national market for most of its products. If different price levels prevail in different areas for a product which has a national market the area in which the highest price prevails will, under scarcity conditions, tend to draw off the entire supply. The attempt to maintain such a system would disrupt the desired flow of commodities, cripple the operation of the rationing system, and provoke price competition among areas, thus threatening a general break-down of distribution. It is possible, however, that obstacles to interzonal trade would limit the effects of conflicting price levels. But should the zonal arrangement be merely a division of labor, with important policy decisions being formulated by Allied authorities in Berlin, it would be desirable to establish a national administration of price control. In such event it would also be advisable to set up a zonal level of price administration. The Zonal Price Administrators would be representatives of the Central Price Commissioner, authorized to act

on his behalf, and would be entrusted with the responsibility of supervising the regional, district, and local price offices.

3. Nature of Controls

a. Types of control.—The *Price Stop Decree*, issued by the Price Commissioner on 26 November 1936, is at the core of the German price-control system. The War Economy Decree, issued by the Ministerial Council for Defense of the Reich on 4 September 1939, gave additional powers to the Price Commissioner. This Decree, which provided that "prices and compensations for goods and commodities of any kind must be calculated according to the principles of an economy committed to war," was used as the basis for the institution of a price-reduction program. There was a group of commodities which were never subject to the provisions of the Price-Stop Decree, and which were expressly exempted therefrom by the First Regulations pursuant to the Decree, issued by the Price Commissioner on 30 November 1936. Most of these commodities remained subject to decrees antedating the Price-Stop Decree which were modified and implemented from time to time. Furthermore, as experience in the administration of the Price-Stop Decree was gained, it became apparent that it did not fit the particular nature of many industries and trades. To an increasing extent, therefore, many industries and trades were exempted from the Price-Stop Decree and subjected to separate decrees, regulations, and orders which attempt to devise methods of price control better suiting their needs. The resulting price-control system is rather complex.

(1) *Price-Stop Decree.*—(*a*) This Decree forbade the seller of any commodity to charge more for that commodity than he charged on 18 October 1936. Thus each individual seller had his own maximum price, based on his own past practice, except in the case of those commodities for which maximum prices had been fixed on a national or regional basis before the issuance of the Price-Stop Decree. The Decree forbade direct or indirect evasions of its provisions. Combination sales, by which the sale of one product is made dependent on the purchase of another, was thus outlawed. Quality deterioration without a proportionate price reduction was also held to constitute a violation of the Decree.

(*b*) Special provision was made for commodities which were not sold on 18 October 1936. Generally, it was provided that such commodities were to take the maximum prices applicable to similar commodities, with certain adjustments for unavoidable cost increases. If no similar commodity was sold on 18 October 1936, the maximum price was to be determined in accordance with a forumla which required the seller to compute his costs on the basis of legal maximum prices and wages. Since 1941, substitutes and new products have had to be reported to the Office of Price Control which, on the basis of detailed cost statements, approves or disapproves the price proposed.

(*c*) The pricing of second-hand goods presented a special problem under the Price-Stop Decree. In 1942 a new system of maximum prices for all second-hand merchandise except art objects, objects having a collector's value, and scrap and waste materials, was announced. The prices for such merchandise were not to exceed the maximum price for the new article less depreciation allowances reflecting the decrease in value of the article, or a price equal to 75

percent of the maximum price for the new article, whichever was lower. The *Reichsstellen* for Paper, Iron and Steel, Rubber and Asbestos are authorized to fix maximum prices for the scrap and used materials within their jurisdiction. However, their actions must be approved by the Price Commissioner. Art objects and objects having a collector's value apparently are exempt from all price control.

(2) *Agricultural prices.*—(*a*) Comprehensive control of agricultural prices dates back to the time of the establishment of the Food Estate in 1933–34. It was originally intended to protect agriculture by a system of minimum prices. With the institution of general, centralized price control, agricultural prices came under the jurisdiction of the Price Commissioner. Although the Commissioner delegated price powers to the Ministry of Food and Agriculture, the Food Estate and its subordinate agencies, still he is the final authority on basic agricultural price policy.

(*b*) Prices for the basic agricultural commodities are established for each harvest year. For many products there are fixed prices (*Festpreise*) which are legal minimum, as well as maximum, prices. They may be uniform prices for the whole Reich or for regions of the Reich; for example, there are about 20 price regions for rye; a similar number for wheat; 14 for barley; 2 for edible autumn potatoes.

(*c*) Fixed prices are used only at the agricultural producer stage; at subsequent stages of production and distribution, maximum prices are fixed, either in terms of specifically named maximum prices or in terms of wholesale and retail maximum mark-ups over cost.

(3) *Administered prices.*—Cartel price agreements and all other price-fixing private agreements, such as resale price maintenance agreements, were subjected to the provisions of the Price-Stop Decree and the authority of the Price Commissioner. The approval of the Price Commissioner is required before any new private price agreement can become effective and before any old agreement can be modified to the disadvantage of the buyer. Cartel prices are uniform prices either for the nation or for each region. It was formerly the practice of the cartels to fix prices on the basis of the costs of the highest-cost cartel member. After the issuance of the War Economy Decree, the Price Commissioner required that cartel prices be based on the costs of the average-cost cartel member. Subsequently, it was required that the costs of a low cost member plus an "efficiency premium" be used as the basis. In 1942 the Price Commissioner threatened to cancel the cartel contracts of those cartels which failed to reduce prices materially by the end of the year. Instances are known of reductions in cartel prices as a result of this and the preceding measures. Recently the system of "group prices" has been inaugurated.

(4) *Government contracts.*—(*a*) Armament prices and prices for other government contracts were originally subject to the Price-Stop Decree. On 15 November 1938, the Price Commissioner issued a directive which came to be known as the R. P. Ö. (*Richtlinien für die Preisbildung bei öffentlichen Aufträgen*), prescribing the principles upon which government contract prices would be fixed. The price decrees, regulations, and orders established generally were held

to apply to government contracts, and a duty was imposed on the contracting agencies to secure compliance. However, it was provided that if, because of the nature of a particular contract, the contracting agency could not determine a price under the price-control provisions generally applicable, or if the agency deemed the price generally applicable to be too high, it could fix the price for the contract according to the principles announced by the Price Commissioner on 18 November 1938 for the determination of government contract prices on the basis of costs. These principles, which became known as the L. S. O. (*Leitsätze für die Preisermittlung auf Grund der Selbstkosten bei Leistungen für öffentliche Auftraggeber*) specify the allowable items of cost and how they are to be calculated. Profits are restricted to a specified percentage-yield on a rigidly defined "necessary" capital. Because of the special problems presented by the construction industry, the Price Commissioner, on 25 May 1940, issued a special set of principles to govern the determination of government construction contract prices on the basis of costs. These principles became known as L. S. B. O.

(*b*) The contracting agencies were directed to resort to L. S. O. prices only in exceptional cases. In practice, however, prices in almost all contracts for armaments and munitions were fixed according to the L. S. O. Ceiling prices generally applicable came to govern only in those fields in which the government competed as a purchaser with private buyers. To escape from the cost-plus features of the L. S. O., to achieve a uniformity of price for the same article manufactured by different firms, and to reward the more efficient, and discourage the less efficient, producers, the Price Commissioner and the Minister of Armaments and War Production, on 2 February 1942, jointly issued the Order on the Establishment of a Uniform and Group Price System for Government Contracts. Under the provisions of this Order manufacturers are divided into price groups depending on their costs of production. In some cases, the price sought by an efficient producer in Price Group I, consisting of those producers whose costs come within the lowest range, is fixed as the uniform price for the category of war materials concerned. In other cases, where the supply of the higher-cost producers is essential, as many as five group prices are fixed. In all cases, the firms in Price Group I are given preferential treatment under the excess-profits tax and priorities in the allocation of labor and materials. Firms are free to apply for reclassification into lower-cost groups.

(*c*) Uniform and group prices under the provisions of this Order are fixed by an *Arbeitsstab*, composed of representatives of the Price Commissioner and Minister for Armaments and War Production. This system of pricing has recently been extended to certain consumer-goods industries.

(*d*) A decree of the Price Commissioner, dated 11 August 1943, codified the rules with respect to the pricing of government contracts.

(5) *Imports and exports.*—(*a*) For most goods of foreign origin, the importer is permitted to charge the price he paid plus the absolute amounts of overhead and profit he obtained in comparable business transactions during 1936. The *Reichsstellen* are authorized to grant exceptions under general rules approved by the Price Commissioner. To prevent the prices arrived at under these provisions from upsetting

the domestic stabilization program, the government has subsidized some imports.

(*b*) For goods coming from Alsace-Lorraine, Luxembourg, the Netherlands, Belgium, and France, the importer is not permitted to charge more than the maximum prices prevailing for comparable German goods and services. Apparently in those occupied countries the Germans could fix export prices at levels which would enable German importers to import at a profit. Here too the *Reichsstellen* were authorized to grant exceptions with the approval of the Price Commissioner.

(*c*) In the main, exports have been exempt from price control.

(6) *Other specific price regulations.*—There are numerous other price regulations which supersede the Price-Stop Decree in the fields they cover. These regulations use a variety of price-control methods, of which the following are the major types:

(*a*) *Maximum mark-ups over cost.*—Maximum mark-ups over cost are used principally at the retail and wholesale levels. They are of three types:

1. Specified maximum percentages.—

This type of control is used for wholesale and retail sales of furniture and shoes and for retail sales of textiles and textile products (including apparel).

2. Base-period percentages.—

Wholesale trade margins in the textile industry are fixed on the basis of the actual percentage margins taken during a specified period in 1939. If, however, the base-period margins exceed specified percentages, the approval of the Office of Price Control must be obtained.

3. "Mark-und-pfennig" maximum mark-ups.—

In order to prevent increases in costs from unduly increasing the price to consumer, mark-ups are sometimes expressed in "mark-und-pfennig" terms, rather than in percentages. Such mark-ups either are uniform and specified by the price-control authority or are based on the "mark-und-pfennig" mark-ups taken by each seller during some base period.

(*b*) *"Mark-und-pfennig" maximum prices.*—Most of these price regulations are in the field of agriculture. There are, however, a number of these regulations for many nonagricultural commodities, for example, matches and soap, automobile repair and towing services, bricks, wastepaper, scrap iron and steel, and silver and silver products.

(*c*) *Other formula pricing.*—Mark-up over cost pricing is one kind of formula pricing. The most important example of formula pricing is, of course, the regulations applicable to government contracts. (See (4) above.) Since 1939 maximum prices for private building construction have been fixed on a similar basis. The items of permitted cost are specified and must be calculated in accordance with the accounting rules promulgated by the trade association. The allowable charges for overhead and profit are fixed by the Price Commissioner.

b. Individual adjustment policy.—(1) Section 3 of the Price-Stop Decree provides that the Price Commissioner or his delegates may grant individual exceptions or adjustments if necessary in the interest of the national economy or to avoid special hardship. To determine

whether individual exceptions are authorized under the provisions of all the other price decrees, regulations, and orders, one must look to the provisions of the particular decree, regulation, or order in question. There is no uniform policy in this regard, some contain provisions authorizing individual exceptions while others do not. In many cases relief to individual business enterprises has been granted not by way of price adjustment, but by way of subsidy either directly from the government or from an equalization fund. (See (c) below.) However, thousands of individual price adjustments have been granted.

(2) The procedure which an individual firm must follow in order to obtain an adjustment also varies and is specified in the particular regulation, decree, or order which contains an adjustment provision. Except in the few cases where the Price Commissioner himself retains jurisdiction (see par. 2a(2)), the Offices of Price Control generally assume responsibility for passing on applications for individual adjustments. Applications in the first instance must be submitted to the appropriate group of the Organization of Industry and Trade or of the Food Estate. These private groups examine the applications to see if they are properly made out. It is their responsibility, also, to consult with representatives of the subsequent stages of production and distribution and to inform the Office of Price Control of the effect the proposed price increase would have on such subsequent stages. The applications must contain detailed information as to (*a*) the costs of producing or distributing the product for which a price increase is sought and (*b*) total sales by the applicant, as well as sales of the product on which a price increase is sought; it must be accompanied by balance sheets, profit-and-loss statements, and tax returns for the preceding 3 years.

(3) Although the Price Commissioner has repeatedly emphasized the need for applying definite and uniform criteria in acting on applications for individual adjustment, there is difficulty in ascertaining the precise criteria which determine action. Generally it can be said that an individual adjustment is granted only when it is necessary to keep the applicant in business and the applicant's continued operation is in the interest of the national economy. Thus, loss on a particular product is not sufficient ground for an increase in the price of that product if the applicant's operations as a whole are profitable. Exceptions when granted are of limited duration and expressly state whether and to what extent subsequent stages of production and distribution may pass on the price increase.

c. Subsidy policy.—(1) Subsidies have been used in a great variety of ways to maximize the production and importation of essential commodities, secure their most effective geographic distribution at all times of the year, and at the same time maintain price stability. The funds for subsidies have come either directly from the Treasury or from "equalization funds," to which members of particular branches of industry, trade or agriculture have contributed. Sometimes subsidies are paid partly from Treasury funds and partly from equalization funds. It is estimated that in 1942 German agricultural subsidies amounted to about RM 1 billion. Of this, RM 200 million came from equalization funds, while RM 800 million came from Treasury funds.

(2) Government subsidies often taken the form, not of direct payments from the Treasury, but of tax reductions or reductions in the freight rates charged by the Reich Railway, or of purchase-and-sale operations conducted at a loss. By the use of equalization funds, the profits of the more profitable segments of the economy have been drawn upon to assist the less profitable segments and thereby avoid the necessity for price increases or government subsidy payments. The latter objective has often been achieved without resort to an equalization fund by permitting a price increase at one stage of production or distribution and requiring the subsequent stages of production or distribution, because of their favorable profit positions, to absorb it. In some cases equalization funds are raised by contributions from the more profitably situated producers of the same commodity made by the less profitably situated who are able to show they need subsidies to continue in operation. Frequently, however, they are raised by contributions from producers in industries different from that in which the subsidized producers are engaged. Thus, for example, contributions have been exacted from breweries and sugar producers to finance subsidies for rye producers. Even in these cases, an attempt is made to exact contributions from those industries which have some relationship to the subsidized segment of the economy; thus the exaction cannot be said to be wholly arbitrary.

(3) Equalization funds are usually administered by the appropriate Group, the Food Estate, or *Reichsstelle*, which in turn are supervised by the Price Commissioner and the Reich Ministry involved. In some cases, the Price Commissioner directly administers the equalization fund. If the subsidy is to be paid by the government, the funds are usually turned over to the Reich Economic Chamber, which supervises all the industry groups, or to the Food Estate.

(4) The use of subsidies has been expanded since 1942. In order to increase agricultural output, premiums are paid for production in excess of specified minimum quotas. Quotas have been fixed for milk, butter, eggs, poultry, and honey.

d. Barter.—Because of the serious shortages of consumer goods, people became increasingly reluctant to part with any goods except for other goods. Feeling that the growth of barter, by increasing the supply of money which could compete for the purchase of nonbartered goods, would have inflationary consequences, the authorities attempted unsuccessfully to eliminate it by outlawing it. The authorities were soon forced to accord limited recognition to barter, and legalized barter in second-hand goods not subject to rationing. Official barter offices were set up in municipalities throughout the Reich. By 1942 it was estimated that there were 1,000 such offices. Practically all second-hand consumer goods, clothing, furniture, and other consumer durable goods are bartered. An official of the barter office fixes the price for every article offered for barter. The municipal barter offices were so successful that permission was granted to the Trade Group for Private Pawnbroking, as well as to the retail trade generally, to set up private barter offices. The fees which they are permitted to charge are regulated. However, most barter transactions are still effected through the medium of newspaper advertisements. Rules adopted by the Association of Publishers permit barter advertisements only with regard to second-hand goods and forbid the use of such expressions as

"new" or "just like new." The advertisement must clearly describe the product, and the person advertising must give the newspaper his name and address and photograph. Undoubtedly an appreciable amount of illegal barter in new goods still continues.

e. Measures supplementing price control.—To aid the enforcement of price control, the Price Commissioner has issued decrees requiring detailed record keeping and price posting. In the interest of economical distribution, particularly in the case of food, provisions have been made to prevent the unnecessary multiplication of middlemen. To increase the supply of consumer goods and to prevent hidden price increases occasioned by quality deterioration, standardization programs for many types of goods have been put into effect, principally by the agencies controlling production and sometimes by the Price Administrator himself. To assist price-control administration in general, the National Group "Industry" prepared uniform General Rules for Industrial Cost Accounting which were approved and made mandatory by the Minister of Economics and the Price Commissioner.

f. Recommendations.—(1) *General.*—(*a*) To date the effort to control prices has been rather successful. Between 1939 and 1943 the index of wholesale prices in Germany increased 9.2 percent, compared with an increase of 23.5 percent over the same period in the United States and 66.6 percent in England. Between 1939 and 1943 the cost-of-living index in Germany increased 11.3 percent, compared with an increase of 36 percent over the same period in the United States and 28.4 percent in Great Britain. While the accuracy of the German indices may be questioned (the indices in England and the United States have also been attacked), there is no doubt that the German record of achievement compares favorably with the record of all major belligerents.

(*b*) In the unlikely event that the controls imposed by the Nazis do not break down before Germany is actually occupied, and the German wholesale price and cost-of-living indices remain about where they are now, the goal of military government should be to hold prices near the existing levels. The Military Government authorities should continue in effect all price decrees, regulations, and orders issued by the Price Commissioner and the other authorities to whom price powers were delegated. (Although the War Economy Decree itself may be repealed, all price actions taken thereunder should be maintained.) Military Government should further retain controls that supplement price control, such as uniform rules for accounting and standardization of products. The existing subsidy programs should only be continued for industries producing cost-of-living items, but subsidies for capital goods should, as a rule, be given only if needed for the purpose of rehabilitating liberated areas. Export and import prices should be kept in line with domestic prices. In the case of imports, subsidies may be used if necessary. On the whole, Military Government authorities should accept the existing price controls and concentrate all their efforts upon enforcement, making modifications when necessary. New price regulations will be necessary as consumer-goods production is resumed. The Price-Stop Decree would be wholly inapplicable to these goods, the production of which may have been discontinued for many years and many of which may be new types of goods.

(*c*) It is possible that considerable pressure will be exerted by industry, agriculture, and labor to force price and wage increases. Industry may expect some relaxation of controls to accompany the overthrow of the Nazis. For some time agriculture has been complaining that farm prices are unfavorably out of line with industrial prices and that farm prices must be increased to maintain the proper relationship. From 1933 on, the general wage level was kept down, although the cost of living from 1933 to 1943 has increased approximately 20 percent. Average weekly incomes have increased substantially because wartime jobs are classified at higher rates and longer hours are worked. With the cessation of hostilities unemployment will probably return, hours of work may decline, and the available jobs may be at lower-rate classifications. As a result, average weekly incomes may decline drastically and pressures for wage increases may mount. Even if such pressures should develop, the Allied authorities should resist them. It should be explained to the German people that such an attempt is merely an anti-inflation measure and does not mean that Military Government either approve or disapprove the existing relationships between agricultural and industrial prices and among wages, prices, and profits generally.

(*d*) It is likely that the inflation controls imposed by the Nazis will have broken down even before the Allied authorities occupy Germany. The Nazis themselves may relax the controls and permit prices to go up legally. But even if the Nazis hold on to the existing legal controls to the end, the likelihood is that they will be ignored more and more and that the Nazis will be unable to enforce the legal ceilings. It is possible, too, that price and rationing controls will break down to a much greater extent than wage controls. The task of the authorities, therefore, will probably not be to take over inflation controls which are functioning fairly well, but to gain control over a situation which has gotten out of hand. Immediately Military Government will be forced to decide not only the absolute levels at which it will seek to stabilize industrial and agricultural prices, wages, and rents, but also the relationships between agricultural and industrial prices and between wages, prices, and profits generally.

(*e*) It would be extremely difficult to roll back prices in the face of strong inflationary pressures. The situation may be such that the authorities will have to accept the general level of prices prevailing at the time of occupation and assume the task of preventing further increase. If it is decided that this must be done, the method of doing it must be carefully considered. A new freeze of prices prevailing at the time of occupation would not only be wholly unenforceable but would operate to the benefit of those who charged the highest illegal prices. To effect a wholesale upward adjustment in prices in a fair manner without making price control unenforceable, a regulation could be issued increasing all legal maximum prices by a flat percentage. The flat percentage should be equal to the percentage by which it is estimated that prices, in general, have actually increased above the legal maximum prices. This would bring certain prices below their current levels and permit others to go above their current levels.

(*f*) If the attempt to reduce prices is abandoned, and an upward adjustment in legal maximum prices is made, the authorities must concern themselves with the resulting relationships between wages and

prices and between agricultural and industrial prices. Obviously there is no common agreement on what such relationships should be. But Military Government should so fix these relationships that at least they permit attainment of the limited objectives of Military Government.

(*g*) It is in the interest of Military Government to maintain general security by preventing mass privation. This involves stabilizing the prices of the necessities of life at levels which bring those commodities within the practical reach of wage and salary earners. If prices of essential commodities do not correspond with wage and salary levels, and cannot be reduced, wages and salaries should be adjusted to prevent great hardship.[1] Military Government should also insure that the prices of essential commodities bought by farmers, both for use in farm production and for personal consumption, are stabilized at levels which bring those commodities within the reach of the farmer. If the prices of essential commodities do not correspond with the level of agricultural income and cannot be reduced, agricultural income should be increased. Since a substantial increase in agricultural prices would require further upward adjustments in wages and salaries, and endanger the whole stabilization program, the German authorities, under the supervision of Military Government, should be permitted to subsidize farm prices.

(*h*) Finally, since the government of the occupying authorities will be judged by the governed to a large extent on the basis of whether it is exacting equality of sacrifice, a wage-price-profit relationship should be established which makes profiteering impossible.

(2) *Barter.*—It is recommended that the barter offices be continued in operation. While it is true that the withdrawal of commodities from the money economy is inflationary, to the extent that barter increases the supply of consumer goods in actual use it is not inflationary. Until stabilization seems fairly assured, prohibition of barter in second-hand goods not subject to rationing will probably not induce people to sell such goods at the legal maximum prices to the same extent that they are induced to part with them in bartering transactions. In addition to barter in second-hand goods, it should be possible to expand the use of industrial products as an incentive for increasing the flow of foodstuffs from the farms to urban collection centers. These industrial products could be offered to farmers through regular channels of trade against delivery of agricultural products. Such barter operations would increase the volume of goods marketed through legal channels.[2]

4. Enforcement of Price Control

a. Existing organization of enforcement.—(1) Section 3 of the Act to Carry Out the Four-Year Plan provides that violations of the price-control decrees, regulations, and orders are punishable by fine or imprisonment or both. No upper limit is placed on the amount of the fines which can be imposed by the Price Commissioner. In addition, the goods which are the subject of the illegal transaction are liable to confiscation by the government. The Price Commssioner is

[1] For details see Civil Affairs Guide, "Wages, Hours, and Working Conditions of Industrial Labor in Germany."
[2] See Civil Affairs Guide, "Food Program for Germany during the Period of Occupation."

further authorized to close the business enterprise in which the violation occurred, either permanently or for a stated period of time, depending on the seriousness of the violation, or to forbid the enterprise from selling the commodities in connection with which the violation occurred. He is also authorzed to prohibit individuals from engaging in any activity in the trade in which they commit a violation. On 3 June 1939 a penal decree (*Verordnung über Strafen und Strafverfahren bei Zuwiderhandlunge gegen Preisvorschriften*) was enacted which punishes the intentional or negligent violation of price control by imprisonment (up to five years) and fines without limit. An amendment to this Decree of 28 August 1941 requires the violator to pay to the federal government the excess over the maximum price which he charged. Violators may also be punished as *Volkschädlinge* and put to death.

(2) As indicated above, the responsibility for enforcement is lodged primarily in the Offices of Price Enforcement, which in turn have delegated their enforcement powers to subordinate local agencies. The Price Commissioner has also delegated to these local agencies the power to close business enterprises for a definite period of time and to prohibit particular business activities. These local agencies use the State Police (which includes the Rural Police) as well as the Secret State Police (the Gestapo) and the Municipal Police. In addition, the Offices of Price Enforcement employ their own inspectors to patrol the stores and markets. In the cities, municipal inspectors, also known as "Food Police" and "Market Police," help to enforce price control. In Berlin, for example, the Police President has set up in various sections of the city so-called bases which function as price offices with authority to close business enterprises for some days and to impose small fines. *Das Reich* gives the following account of the typical enforcement procedure: "If a retailer has violated a price statute, the procedure taken against him gets quickly under way. Either he is summoned the same day . . . or the following day for the so-called 'submission trial.' If the retailer pleads guilty and promises to avoid any further violations in the future, the case is dismissed with a fine corresponding to his income. This fine does not have the character of a penalty. Other cases go before criminal courts, grave cases before the special courts. Insignificant cases are settled by consent decrees before the administrative agencies. The fines vary from 20 RM to several hundred RM. The highest amount paid by consent decree was RM 300,000, which was voluntarily offered in Western Germany as an amends for grave offenses against price statutes."

(3) The Special Courts (*Sondergerichte*), established by the Act of 21 March 1933, are courts of final resort. Appeal may be taken from the decisions of the regular lower criminal courts to the next higher criminal court. The local government prosecuting attorney may demand trial before the Special Courts if, in his opinion, the public interest will be served thereby. Furthermore, the regular courts may submit any case to the Special Courts if they are of the opinion the case warrants such submission.

(4) It should also be pointed out that there is no judicial review of any price-control decree, regulation, or order. The Price Commissioner and the agencies subordinate to him are supreme in this

regard and their decrees, regulations, and orders are mandatory on all other administrative agencies and on the courts.

b. Recommendations.—(1) Problems of enforcement will be among the most important and difficult that Military Government will have to face. The military occupation of Germany will entail temporary suspension and drastic reorganization of the Nazi judicial system. With this the existing structure of procedures and penalties for the enforcement of price controls will be greatly affected. Military Government will have to devise its own procedures and impose its own system of penalties. It is intended here only to set forth certain suggestions as to what elements of the existing system should be retained and what modifications, if any, should be made. The Nazi system of penalties for violation is severe and it has been rather successful in securing compliance. Military Government should not hesitate to be severe where the situation so warrants. The system of administrative fines imposed by local price authorities should be continued, though limits should be placed upon the amount of the fine under various circumstances. This system makes it possible to take speedy action against violators and to fit the punishment to the crime. Goods which are the subject of illegal transactions should continue to be liable to confiscation by the authorities. The power of the Price Commissioner and his delegates to close offending business enterprises, to forbid the sale of particular commodities, and to prevent violators from engaging in certain business activities, should be preserved. Violators should continue to be required to pay to the government the excess over the maximum price which they charged. In flagrant cases, violators should be imprisoned.

(2) The most difficult problems that will confront Military Government authorities will arise not in devising a system of penalties for the violation of price controls but in securing general compliance and apprehending the violators. Military Government authorities will be confronted with the task of thoroughly reorganizing the city, county, and state police system (see Civil Affairs Guide "Police and Public Safety in Germany"). It is extremely doubtful whether, in the first stage of military occupation, the resources of the new police, supported by the military police of the Military Government authorities and the reliable price inspectors of the Offices of Price Supervision and the various municipalities, will be adequate to secure compliance with price control and combat black markets. Certainly the Military Government authorities should be aware of the importance of this problem and devote all their available resources to cope with it. But to be successful they must be prepared to enroll the people in the fight against inflation. Thus, as soon as possible the Military Government authorities should delegate responsibility for the administration and enforcement of price control to representatives of the German people. Even during the first stage of military occupation, committees representing industry and the consumer should be appointed to advise the Military Government authorities on all phases of the administration and enforcement of price control. To obtain consumer representation, the authorities should look to the trade unions, which, during the first stage, may be the only groups able to represent the consumer interest effectively. If and as consumers' cooperative associations are organized in Germany, their representatives should also take their place on

the consumers' advisory committees. These committees and the trade unions should be organized on a local basis to assist in the tasks of enforcement. In the first place they can undertake to explain the activities of the Military Government to the people whom they represent and to enlist the support of the people for these activities. And, equally important, they can undertake to enlist the people whom they represent as "price watchers" to patrol the markets and stores and report violations. This work should be organized as rapidly as possible for it is the utmost importance to the success of the anti-inflation program.

SECTION II. RENT CONTROL

5. Legislation

a. Exist.—(1) Rent control in Germany has existed since World War I. The Reich Rent Act (*Reichsmietengesetz*) of 24 March 1922, and the Tenants' Protection Act (*Mieterschutzgesetz*) of 1 June 1923, which codified legislation passed during World War I, are still in effect, though they have been modified and implemented since the dates of their passage. The Reich Rent Act fixed the maximum rental for space in buildings completed before 1 July 1918, in terms of a percentage of the rental charged on 1 July 1914. Since 1 January 1932, the maximum percentage has been 110 percent. The Tenants' Protection Law is designed to protect tenants against eviction and provides that no tenant may be evicted without the approval of a special tenants' court (*Mieteinigungsamt*) before whom proceedings for eviction must be brought. Furthermore, it provides that a landlord may institute proceedings for eviction only if the tenant (*a*) has failed to pay rent for more than a month, or (*b*) is guilty of misconduct or has treated the premises badly, or (*c*) has made inappropriate use of the premises, or (*d*) has sublet without permission, or (*e*) if the landlord himself desires to use the premises. Since the war it has been provided that the last ground is valid only if the landlord can show that he has such urgent need of the premises that it would be a serious injustice not to permit him to occupy them. It has also been provided that, in the event of a tenant's death, his heir, if living in the tenant's home, succeeds to the tenant's right in the premises.

(2) Originally all business as well as all residential premises were subject to the provisions of these two acts. However, both acts authorized the State authorities to exempt business premises from their provisions. In 1926 Prussia exercised this authority and the other States followed suit. On 18 April 1936, both Acts were expressly amended to exclude business premises, except when part of a dwelling unit. In 1931 the larger residential dwellings were exempted from the provisions of the Reich Rent Act.

(3) The Price-Stop Decree of 26 November 1936, brought under control all rents not subject to the Reich Rent Act, rents of buildings completed after 1 July 1918, of the larger residential dwellings, and of all business premises. Rent increases for any residential or business premises are permitted only on the specific approval of the appropriate price authority, and then only if a case for an increase is made under the provisions of the hardship clause of the Price-Stop

Decree. Furthermore, by a decree of the Price Commissioner, dated 10 April 1939, tenants in premises brought under control by the Price-Stop Decree were afforded protection against unwarranted eviction. Any tenant who is given notice to vacate may protest the notice, in which event the landlord must obtain the approval of the appropriate price agency to evict the tenant. The price agency will refuse to grant its approval if the tenant can show that eviction would cause him considerable hardship. However, it will grant its approval if the landlord consents to compensate the tenant for the moving and other expenses that would be incurred by the tenant in vacating, and to grant the tenant the necessary time to find other premises.

(4) Further protection to tenants is afforded by the Reich Law on Exactions (*Reichsleistungsgesetz*) of 1 September 1939, and the First Reich Decree on Grants-in-Aid (*Erster Reichsbeihilfeerlass*) of 8 March 1943. The Law on Exactions authorizes local authorities to requisition facilities for billeting purposes. Persons provided with dwellings under the provisions of this law may not be evicted except with the approval of the municipal billeting office. The law also regulates the rents which are to be paid for such dwellings. The Decree on Grants-in-Aid provided for direct government assistance to persons who move away from localities where housing facilities are inadequate. The government contributes from 50 to 100 percent of the cost of moving, depending upon the need of the mover. Moreover, if the mover cannot find a new dwelling at the rental he formerly paid, or if he cannot be expected to be satisfied with the dwelling which is available at the former rental and consequently must pay a higher rental, the government will pay the difference between the former and present rental for a period of 3 years (for a fuller discussion of these laws see Civil Affairs Guide, "Housing and Building Materials in Germany; B. Administration").

(5) Persons supplied with dwellings under the provisions of the Decree for Supply of Housing Space for the Bombed-Out Population (*Verordnung zur Wohnraumversorgung der Luftkriegsbetroffenen Bevolkerung*), of 21 June 1943, are not protected against eviction under the Tenants' Protection Law or any other law. If such persons are evicted, however, the municipality is under a duty to provide other dwellings. Persons supplied with dwellings under the provisions of the Decree for the Regulation of Housing Space (*Verordnung zur Wohnraumlenkung*), of 27 February 1943, are protected against evictions under the Tenants' Protection Law. (For a fuller discussion of these decrees see Civil Affairs Guide, "Housing and Building Materials in Germany: B. Administration.")

b. Recommendations.—The existing legislation, which in the main has been in effect for more than 20 years, seems to be adequate. The Military Government authorities should immediately ratify the existing legislation on rent and eviction control and function within that framework. The only modifications that are recommended are the extension of the provisions of the Tenants' Protection Act to persons supplied with dwellings under the Decree for the Supply of Housing Space for the Bombed-Out Population, and the extension of the protection of the Reich Rent Act and Tenants' Protection to persons deprived of such protection by the various Nazi discriminatory laws.

Even if the authorities make an upward adjustment in the legal maximum price and wage levels, no substantial adjustments in rents will be required.

6. Administration.

Since 1936, the administration of rent (and eviction) control has been the responsibility of the Price Commissioner. In practice, complete authority has been delegated to the city and county price offices, who thus administer the controls over rents for both residential and business premises. This administrative organization should be continued by Military Government.

U. S. GOVERNMENT PRINTING OFFICE: 1944